



USFRCS MEMORANDUM NO. 61

TO: Administrators of School District Sponsored Charter Schools

FROM: Magdalene D. Haggerty, Office of the Auditor General
Vicki G. Salazar, Arizona Department of Education (ADE)

DATE: September 21, 2005

SUBJECT: Charter School Audits (Supersedes USFRCS Memorandum Nos. 46, 50, and 53)

NOTE: **Charter schools sponsored by the Arizona State Board of Education and the Arizona State Board for Charter Schools should contact the Arizona State Board for Charter Schools for audit requirements applicable to those schools.**

Phone: (602) 364-3080

Website: www.asbcs.state.az.us

Arizona Revised Statutes (A.R.S.) §15-914 requires all charter schools to have an annual audit. Schools organized as governmental and not-for-profit entities that exceed the threshold of federal award expenditures set forth in Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, currently \$500,000, are subject to the requirements of the *Single Audit Act Amendments of 1996* and the implementing regulations of the OMB, including OMB Circular No. A-133, and are required to obtain an annual single audit. Schools expending less than the amount of federal awards stated above must have at least an annual financial statement audit. However, a school may choose to have a single audit in lieu of a financial statement audit if the single audit requirements are followed.

The audit requirements imposed by the *Single Audit Act Amendments of 1996* included in this memorandum apply specifically to schools that are the primary reporting entity. In cases where the school is not the primary reporting entity (i.e., the school is part of a larger organization or considered a subsidiary of another organization), these requirements are applicable to the primary reporting entity and not the school. However, if the school is the only part of the primary reporting entity that received federal financial assistance, the entity may choose to apply these requirements just to charter school operations.

Single audits and financial statement audits must be performed by an independent certified public accountant in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Schools must submit the audit reports to the Federal Audit Clearinghouse (if a single audit), the ADE Audit Resolution Unit, other state grantor agencies, and the Auditor General within 9 months after fiscal year end. In addition, one copy of the USFRCS or Legal Compliance Questionnaire must be submitted to the Auditor General.

A.R.S. §§15-914(E) and 41-1279.21(A)(4) require audit contracts for school district sponsored charter schools and the completed audit reports to be approved by the Auditor General. This Memorandum provides general guidance on charter school audit requirements. It includes a sample notice of request for proposals and sample request for proposals (RFP) with instructions, and a sample audit contract that can be used to procure audit services. Schools may use the enclosed samples dated 9/05, and **should destroy previous versions. A copy of the proposed contract must be submitted to the Auditor General for approval before the contract is signed and any audit work begins.**

Schools may contract with an audit firm for up to 5 years. If a school contracts for a 1-year audit with the option to renew for up to 4 additional years, or contracts for a multi-year audit without an option to renew, the cost for each of the years should be clearly specified in the original contract. For contracts with an option to renew, each year that the renewal option is exercised, a new proposed contract must be submitted for approval. If the school exercises its option to renew the contract, the contracted amount in each of the subsequent option years must agree with the amounts specified in the original contract.

Changes in the scope, character, or complexity of the work may be negotiated if it is mutually agreed by the audit firm and school that changes of this nature are desirable and necessary. **Such proposed contract amendments must be authorized in writing by the charter school and approved by the Auditor General prior to the performance of work.**

A school contracting for an audit must follow the School District Procurement Rules prescribed by the Arizona State Board of Education (ASBE) if the estimated cost of the contracted audit services exceeds \$50,000. These rules require that competitive sealed proposals be solicited through an RFP. The enclosed sample RFP is provided for this purpose.

If the school estimates that the total cost of contracted audit services will be \$50,000 or less, it is not required to follow the School District Procurement Rules. However, the "Guidelines for Competitive Purchasing Below the Dollar Limits Required for Sealed Bids," prescribed by the *Uniform System of Financial Records for Arizona Charter Schools* (USFRCS) (pages VI-G-7 and 8 and USFRCS Memorandum No. 55) must be followed. These guidelines require written price quotations from at least three audit firms for audit contracts of at least \$15,000, but not more than \$50,000, and oral price quotations from at least three audit firms for audit contracts of at least \$5,000, but less than \$15,000.

It is recommended that schools use an RFP to obtain written or oral price quotations for an audit/audits, even if the estimated cost is \$50,000 or less. The nature of an audit requires that certain essential information about the school and the necessary elements of the audit requirements be communicated to interested audit firms to enable them to develop a proposed work plan and reasonably estimate the cost of the audit.

A.R.S. §15-271 requires the Auditor General to inform any school district sponsored charter school failing to comply with the USFRCS at a satisfactory level that it has 90 days to correct the

deficiencies cited by the audit firm. To assist the Auditor General in determining whether a school has established and maintained an internal control structure that complies with the USFRCS at a satisfactory level, the audit firm performing the audit must complete and submit the USFRCS Compliance Questionnaire, along with any management letter the audit firm issues to the school, to the Auditor General. Each school is responsible for providing a copy of the USFRCS Compliance Questionnaire to the audit firm contracted to perform the school's audit.

If a charter school is exempt from complying with the USFRCS, the audit firm must complete the enclosed Legal Compliance Questionnaire. If the charter school is also exempt from following the School District Procurement Rules, the auditor should indicate "N/A" on the Procurement section of the Legal Compliance Questionnaire. The Legal Compliance Questionnaire assists the Auditor General in determining whether a charter school is in compliance with applicable legal requirements.

The USFRCS and Legal Compliance Questionnaires include guidelines for testing procurement and average daily membership in accordance with A.R.S. §§15-213 and 15-914. These guidelines have been revised to include additional questions and guidance for testing in those areas. Other minor edits have been made throughout the questionnaires.

The enclosed USFRCS Compliance Questionnaire supersedes the Questionnaire dated 1/04 that was issued in USFRCS Memorandum No. 50. The enclosed Legal Compliance Questionnaire supersedes the Questionnaire dated 8/04 that was issued in USFRCS Memorandum No. 53. **The revised questionnaires dated 9/05 must be used for audits in which the audit firm's fieldwork is completed after the issuance date of this Memorandum.**

A.R.S. §§15-914(E) and 41-1279.21(A)(4) require the Auditor General to ensure that completed audits of school district sponsored charter schools are conducted in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular No. A-133, if applicable; and the minimum audit standards prescribed by the Auditor General.

Accordingly, the Auditor General reviews the audit reports and may select for review audit documentation of audit firms performing charter school audits. Such review is to determine the quality of technical performance and adherence to the cited standards and OMB Circular No. A-133, if applicable, and to determine whether the audit firm met the minimum audit standards prescribed by the Auditor General for completing the USFRCS or Legal Compliance Questionnaire.

If it is determined that an audit firm frequently has not met the auditing standards listed in the preceding paragraph and/or the requirements of OMB Circular No. A-133, the Auditor General may disapprove audit contracts.

Schools that are required to have a single audit may charge audit costs applicable to each federal program to the appropriate federal project. This action requires filing a project amendment with ADE and budgeting an appropriate amount under Support Services—Business, function code 2500, and Purchased Professional and Technical Services, object code 6300. Any remaining audit costs, however, should be paid for from state and local monies. Schools that are only required to have an annual financial statement audit may not charge audit costs to federal programs. This applies even if such schools choose to have single audits. All schools may increase their budgets, as outlined in A.R.S. §15-914(F), for audit costs paid by the charter school from state and local monies. Specific

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instructions for calculating this increase have been included in the charter school annual budget forms and budget work sheets.

If you have any questions or need assistance, please call the Office of the Auditor General, Accounting Services Division at (602) 553-0333, or the Arizona Department of Education, School Finance Operations Unit at (602) 542-5695.

MDH/VGS/ms

Enclosures

Instructions-Request for Proposals

Sample Notice

Sample Request for Proposals

Sample Contract

USFRCS Compliance Questionnaire

Legal Compliance Questionnaire